RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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THE PICTURE: Subscribers who read Letter 1009 (Jan. 25) could hardly have been surprised by either of the past two monthly surges in the Producer Price Index, since the chart on page 6 of that Letter showed the PPI in a powerful head-and-shoulder bottom formation. On March 17 as the news of the second 1% pop in the PPI was released, the broad market swooned (over 1400 declining issues), the Dow fell 48 points, and the Transports sank a spectacular 27 points. At the same time, bonds and money market instruments dropped precipitously while spot crude oil pushed up over $20 a barrel.

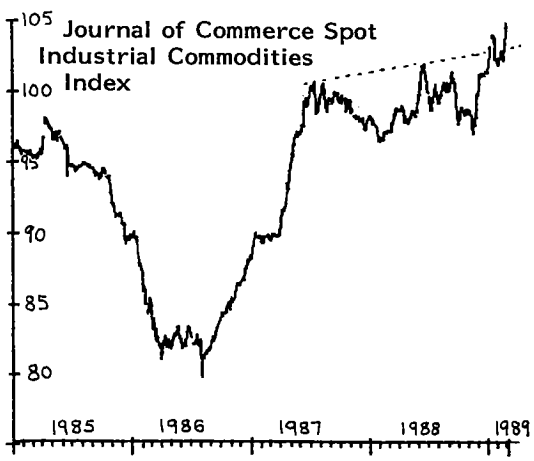
With auto sales sagging and housing starts sliding, one can almost pity the plight of the economists at the Fed. Is the economy going into recession? Has a recession already started (nothing "bad" was supposed to happen until 1990, remember)? Is inflation heating up, or is this just a temporary hiccup within an overall pattern of deflation as the "long-cycle" adherents would have us believe?

Alan Greenspan is welcome to figure it all out, but Wall Street's first reaction is that whatever is happening, it doesn't like it. The question that comes to my mind is, "Has the post-crash recovery rally ended? Is the smash in breadth signaling the end of the advance?" Obviously one sparrow doesn't portend Spring, and one severe drop on Wall Street doesn't necessarily end the recovery. However, what is of interest is that the intensity of the decline is so much greater than the intensity which characterized the advance. Keep tuned, the mystery will unravel itself in its own good time.

There's no question about this: The monetary picture has turned hostile. Last week the effective yield on the Treasury 91-day bills rose to 9.15%. From the standpoint of history, when the bill rate is double or more the yield on the S&P 500 (see page 6, last Letter), that ratio puts the stock market in the "high risk" area. The T-bill/stock yield ratio is now 2.43 meaning, of course, that the T-bills now provide 2.43 times the yield of the S&P 500.

On top of that, when the Fed Funds rate climbs above the Discount Rate (and it's now 2% above the discount rate), the stock market, historically, is in the sell mode (see later section). But even in the face of these two time-proven warnings, the 1989 stock market has continued to creep to the North.

Meanwhile, inflation is heating up in all the developed nations of the world. This chart (courtesy of Ed Hyman, *CJ Lawrence)* depicts the current high-level breakout in the US Spot Industrial Commodity Index. As I see it, interest rates have a ways to go on the upside before inflation is held in check.

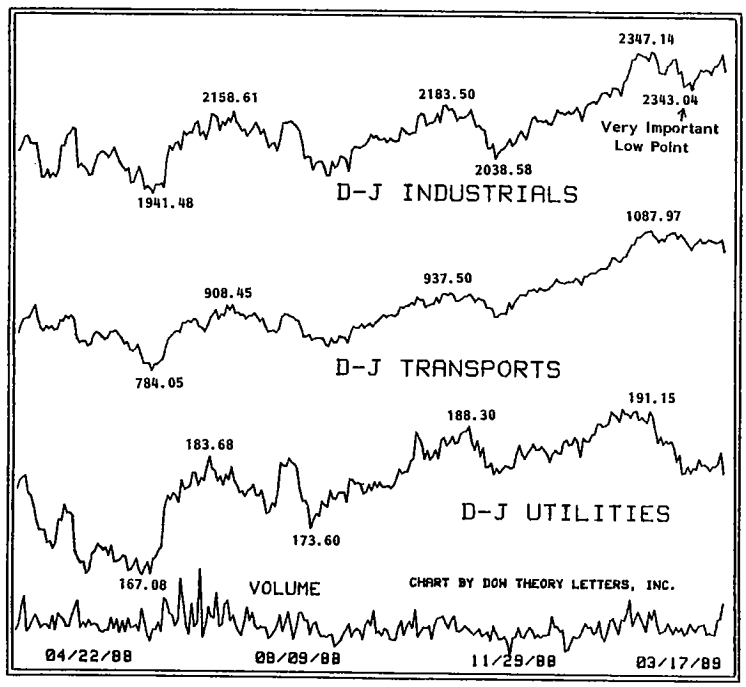


Mar 10 DJIA 2282.14; PTI 2922; A-D Ratio -10.03
Mar 17 DJIA 2294.14; PTI 2934; A-D Ratio -10.22
Current Dow Yield: 3.70%; Dow P/E: 10.6
Dow Book Value: 1009; Dow 200-day MA: 2151
DowPow: 691;
Percentage of Undervalued Blue-Chips: 20%
Dow now 440 points below '87 bull market high

There's an old adage on Wall Street that states, "the market always does what it's supposed to -- but never when." It's an adage that's well worth remembering as this stock market finds itself in high-risk territory.

In some ways, this has been the strangest advance I've seen in 43 years of watching the stock market. In the entire post-crash rise, there have been only four days in which the market produced 1,000 or more advances. I've never seen anything like that and it shows in the weakness of DowPow. Also, most of the action seems to be coming from institutions alone, with the public singularly disinterested in stocks (with money-market funds yielding well over 9%, the public doesn't need the stock market). Incredibly, the advance-decline ratio has tacked on less than six points during the entire 17-month rise. Finally, the Utility Average (usually a bellwether leader) has hardly participated in the rise and it is still lagging badly.

Will rates continue to climb? In the latest issue of the authoritative *Bank Credit Analyst,* five preconditions are listed which, in the past, have almost always preceded peaks in short-term interest rates. They are: (1) a clear Fed restraint on Net Free Reserves; (2) a clear topping in sensitive commodity prices; (3) a sharp rise in inventories relative to sales; (4) a decline in stock prices, and (5) an inverted yield curve, usually five months or more prior to an interest rate peak.



So far, not one of these preconditions has occurred. Will it be different this time? Will short-term rates peak without these five preconditions? In the markets, anything can happen, but I certainly wouldn't bet on it.

Of course, what's happened is that the Fed has been edging up interest rates (via Fed Funds) while at the same time making money amply available. In other words, you can have all the money you want, but it will cost you. The absurdity of the situation can be seen from the following example: the discount rate today is only 7% while Fed Funds are 9.75% and T-bill yield is 9.15%. A bank today is better off borrowing from the Fed at 7% and then relending the money via Fed Funds or T-bills and the devil with their other clients. This makes me wonder how much longer we can go on without another boost in the discount rate.

PRICE ACTION: Most people are not aware of it, but the stock market has been in a trading range ever since late-January (see page 1 chart). The critical points to watch in the Averages are the **2347.14** (Industrials) and **1087.97** (Transports) highs of February 8. For an "all clear" signal, **BOTH** Averages must better those points.

In my own proprietary work, it's the same old story. My **PTI** (which defines the underlying trend) hit a high of 2942 on March 16. Meanwhile, **DowPow** (which measures the power of the advance) moves sideways, having literally gone nowhere since the crash lows.

INVESTMENT POSITION: For years I have been warning my subscribers (with the exception of those who are professional floor traders) to turn "thumbs down" on in-and-out trading in stocks and to forget dealing in options and futures. Now comes interesting proof. In 1983 two LA investors started the "US Trading and Investing Championships." Entrants tend to be informed and sophisticated amateurs and pros. Entrance fees range from $175 to $250, and monthly brokerage statements must be submitted. There are various trading categories including stocks, buying options, selling options, futures, mutual funds. Here are the results: Over four years (1985 through 1988) 77% of all entrants showed losses. Mutual fund switchers did best, but even here the results were hardly impressive: 55.1% of fund switchers made money in 1988 while only 35% made money in 1987, and remember, fund-switching was by far the most successful category.

The main reason for buying stocks (at a time when money market funds are yielding over 9%) is simply that stocks have been going up. But what if stocks start heading down in earnest? Would you hold stocks yielding 3.7% in a steadily declining market? My feeling is that most people would dump their low-yielding stocks and take the losses in a declining market. And the great majority of stocks on all the exchanges are now low-yielding.

I place a lot of emphasis on my PTI in these Letters, and a number of subscribers have asked me how to operate in the stock market using the PTI. My answer is that I would use no-load growth mutual funds, and gear my fund position strictly to the trend of the PTI. Everyone has his own list of favorite funds, and many (actually most) business magazines now publish lists of the best-performing funds. *Growth Fund Guide* (Box 6600, Rapid City, SD 57709) provides an excellent run-down on mutual funds, and it's a most informative service to boot.

In the meantime, the top investment (on a risk/reward basis) in today's market continues to be the 2 to 4 year maturity Treasury notes -- fat yield-bearing instruments (9.3%), super-safe, and subject only to Federal taxes (no state tax).

INVESTING: I write for a lot of people, and at this point I want to present a few of my thoughts on investing. The institutions, banks, brokers, floor members, and professionals who read *Dow Theory Letters* can take care of themselves. They don't read *Dow Theory Letters* for advice, they read it for ideas, for concepts, and probably to check their own thoughts and conclusions against mine.

The traders, the readers under 45 years of age with time, plenty of time, ahead of them and a yearn to catch the swings, many of them simply follow my Primary Trend Index. They really don't need to do anything else. A number of them have told me that they simply check the trend of the PTI, read the Notes & Quotes section, and then file the Letters.

But I would guess that the majority of my subscribers are conservative. They don't switch their funds around, they crave stability and safety (if they can find it), and they are very conscious of risk. And oh yes, above all they don't want to lose money.

I have written often about risk/reward. Let me try to explain this crucial concept. When you buy an item, what is the risk of your losing money on that item vs. the odds of making money (taxes considered) in the same item? This is the question that every seasoned investor asks himself.

A second very important consideration is as follows (and I seldom see this mentioned anywhere). If you want to make money you have got to be able to take a major position in some given area. If a bull market is starting and you have capital of $100,000, it isn't going to help you if you only invest $2,000 of your total capital in stocks. In other words, in order to make real money you've got to have the courage of your convictions, and you've got to be able to take a major position. That almost always entails an appraisal of RISK and REWARD.

There is only one absolutely solid way of measuring risk/reward, and that is an appraisal on the basis of **safety** and **value.**

I think the best way of explaining this concept is with an example of a situation I actually was confronted with. Back in 1982 Exxon was selling for 28 while paying out a $2.80 dividend. The stock, at that time, was yielding a juicy 10%. I felt (even though the market was acting poorly at the time) that (1) the market was undergoing a correction in a continuing bull market, (2) that Exxon's generous dividend was very well protected, (3) that Exxon was selling at a bargain price and on a yield and safety basis Exxon was selling almost like a bond.

As a result, I was willing to personally load up on Exxon, put it in my kids' accounts, and put it in my pension plan. But here is a point that is crucial to understand. I felt that the risk/reward in Exxon was irresistible. If the stock declined, its well-protected dividend would hold and its yield would rise above 10%, in which case I would almost surely buy more. If the Exxon did nothing for years, I would be happy to sit with it while collecting the fat dividend. If Exxon advanced in price -- well, that was hardly a problem. Thus Exxon fulfilled my criteria for a safe investment selling at a bargain price with an excellent risk/reward ratio. I was therefore willing to buy a lot of Exxon in 1982.

Here's another example of what I term an excellent risk/reward situation. Both before and after the 1987 crash I felt that high-grade bonds represented an attractive risk/reward situation (and I consistently recommended them). I felt (1) on a long-term basis bond yields had topped out (see chart in Letter 1008, page 3). (2) I felt that bond yields, particularly municipal bond yields, were highly attractive on an historical basis. (3) I felt that the return on high-grade bonds was attractive enough to warrant sitting through any temporary periods of weakness in bonds -- and sitting with a large bond portfolio.

What about risk/reward today? As I've said before, the clearest value and the most obvious risk/reward situation today lies in Treasury securities maturing in two to four years. Recently, for instance, the auction on three-year totally safe Treasury notes went at a 9.3% yield -- highest yield in almost four years. In these notes you are receiving a safe, fat return for three years with a guarantee

of getting all your money back (regardless of what happens in the economy or the bond market or the stock market).

Under these conditions, compounding (rather than buying stocks for appreciation) becomes very attractive. Furthermore, due to extreme safety and high return, one can make a case for taking a very large position in the T-notes. After all, how many riskless investments guarantee you a total return of 30% (free of state taxes) within three years? Believe me, there aren't many.

Compare this with stocks now averaging a taxable return of 3.7% or less, stocks in an extended rally coming within the context of a primary bear market. The operative question for today's stock buyer is this: If the market now turns down and heads persistently lower, will you be willing to sit with your stocks as I would have been had Exxon headed lower in 1982? If you can't answer this question in the affirmative, you're invested improperly. And furthermore, you haven't weighed the risk/ reward equation for stocks correctly.

By the way, there's a corollary to all of the above. It's a very simple corollary. It says, "Above all, don't lose money." How do you avoid losing money? You do it by correctly appraising the various investment alternatives and by being in the investment which offers the greatest risk/reward.

A few days ago I asked a very successful investor, "Joe, how can these fund mangers justify bidding up this market and buying common stocks yielding 3% when they could be buying T-notes yielding over 9%?" He answered, "They can't justify it, but that's not the point. The point is that they're buying all these low-yielding stocks using other people's money."

In closing this section, my advice is to remember Dow's words, "To understand values is to know the meaning of the market."

MONEY and STOCKS: As inflation heats up, the monetary situation gets increasingly out-of-whack. In view of that, here (bottom of page) is a chart worth studying. It's *Market Logic's* Discount Rate/T Bill Index, an indicator with an excellent record of issuing green or red signals for the stock market. In the past, whenever the T-bill rate pushed above the discount rate (discount rate is the rate banks pay the Fed for short-term borrowing), such action spelled trouble for the market. It meant that there was a fairly high degree of pressure on the money markets.

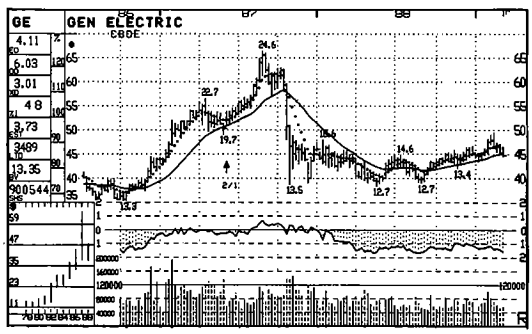
The bill rate is currently 9.15% while the discount rate is only 7%. The chart provides a history of this Index going back to the 1950s. (Chart courtesy of *Market Logic,* 3471 N. Federal H'way, Ft. Lauderdale, FL 33306.)

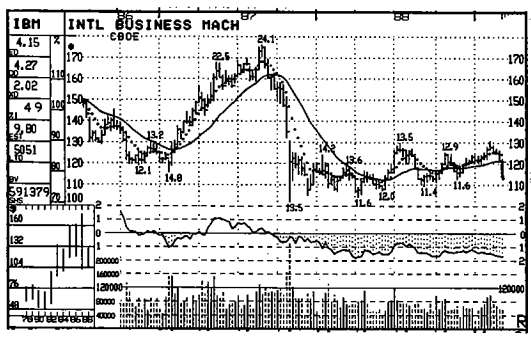
DOW STOCKS: Many years ago (I think it was back in the 1970s when my subscribers and I were buying a lot of stocks), I used to provide frequent technical rundowns on the 30 Dow Industrial stocks. I still watch these 30 stocks carefully, and I am thinking that maybe I'll go back to at least reporting major changes in the technical positions of these 30 very important shares.

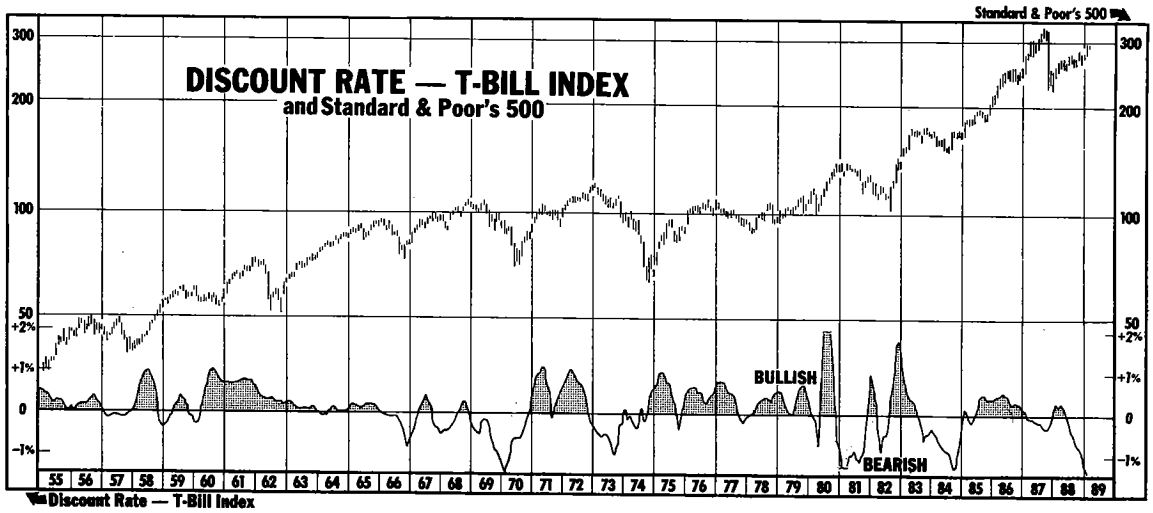
Subscribers know that I grade a stock as definitely bullish if (1) the stock shows superior relative strength -- in other words, if it is acting better than the market on a trend basis, and (2) if it is holding above its own 30-week moving average.

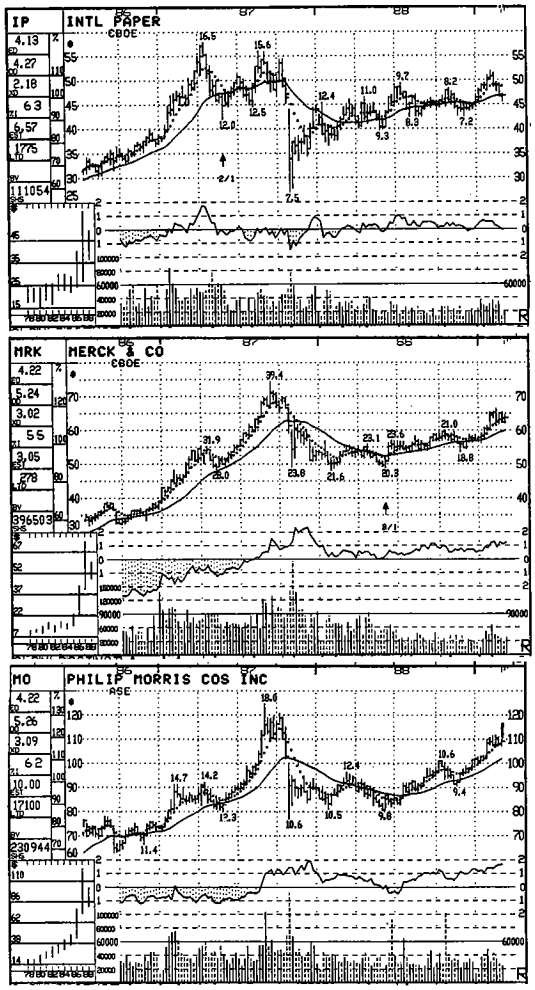
On this basis, only 10 of the 30 Dow Industrials are now in a definite bullish trend. These are Aluminum Co.; Amer. Tel.; Beth Steel; Boeing; Coca Cola; Merck; Philip Morris; Texaco; Union Carbide; USX.

Exxon has been losing RS for months and has now turned bearish. Sears and GE have never (since the crash) turned bullish on RS. IBM, Allied Signal, and GE have remained bearish in RS and actually at this writing show negative and deteriorating RS. Stocks looking good are Aluminum, Boeing, Coca Cola, Merck, Philip Morris, and Union Carbide. Woolworth made a big move up from its crash low, but over the past six months it has been losing RS, and a few weeks ago it fell below its MA. (All charts courtesy of *Mansfield.*)









A STORY: Here's a story I've never told before, and it might have a meaning for those of you who want to go into your own business. Back in 1958, before I'd ever written an article for *Barron's,* I started Dow Theory Letters. I had been sending the Letters to about 20 friends and acquaintances who were paying me $20 a year for the Letter (this simply covered my postage and printing costs). But I wanted to expand the Letter, and not knowing much about the commercial end of the business, I placed an ad in the New York Times. The ad offered three consecutive issues of Dow Theory Letters for $1 (the same price, by the way, that I charge for a trial today).

Two weeks went by and I received nothing, not a single answer to my ad. Naturally I became discouraged. Then one day a post card came in from a fellow who said he would like a sample of the Letter. "To heck with it," I told my wife, Connie, "if that's all the interest I got for my ad I give up. He didn't even send a dollar for a trial." I tossed the post card in the waste basket.

To her ever-lasting credit Connie said, "No, he showed some interest. I'd send him a sample. You can't get discouraged. Nobody ever said starting a business would be easy."

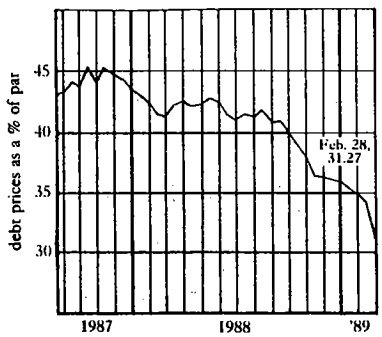
I picked the post card out of the trash and sent a few Letters to the writer. His name was John Harrington. A few days later I got a letter from John. He said he liked my work very much and encouraged me to go on. He said that he was convinced that my Letter would be a success, and that at the end of his trial he would subscribe.

That letter from John Harrington somehow convinced me to continue. Some months later I started my series of articles in *Barron's,* and within a short period I was in business. Years passed. My subscription list increased, until at this point I have over 11,000 subscribers.

But I'll never forget how close I was to quitting. Left on my own, in all honesty, I would have quit. The extraordinary act (was it a coincidence or something else) of Connie telling me to pull the card out of the trash and John Harrington writing me an encouraging letter turned the tide for me. I've kept John Harrington on my subscription list (no charge) ever since. John, hope you're in good health, and God bless you. Same to you Constance.

NOTES & QUOTES: A few weeks ago Venezuela announced that it would no longer pay interest on its $33 billion debt. Then the Administration came out with a vague plan suggesting that banks write off or forgive some of their Third World debt. But the markets have been discounting the Third World debt problem for years. Here's a chart (courtesy of *Grant's Interest Rate Observer)* showing the current value (notice the recent collapse) of Third World Debt. At 33 cents on the dollar, you can buy all the S. American debt you want.

***Grant's* Third World Debt Index**



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Quote of the Week: Charles Koch, chairman of the National Council of Savings Institutions, speaking before the Senate Banking Committee complained that the Bush plan "may destroy the industry." Snapped Sen. Richard Shelby, D-Ala., "It seems to me you've already destroyed the industry. . . . You have no credibility here today."

* *

On March 10, for the first time in history, a top Soviet official addressed the House Armed Services Committee. Andrey Kokoshin, deputy director of Moscow's Institute of the US and Canada, told a rapt audience that "We got dragged into an extremely costly arms race which contributed in no small measure to the worsening of the economic situation in the country." The Soviets no longer seek military supremacy, he insisted. "Striving for equal security, the Soviet Union, in contrast to the nation which existed in the 1950s and '60s, would not like to see any shifts in the military strategic balance in its favor." Can we believe him? We should know in a year or so. If what Kokoshin says is true, the extraordinary new peace offensive will render every defense stock a short sale.

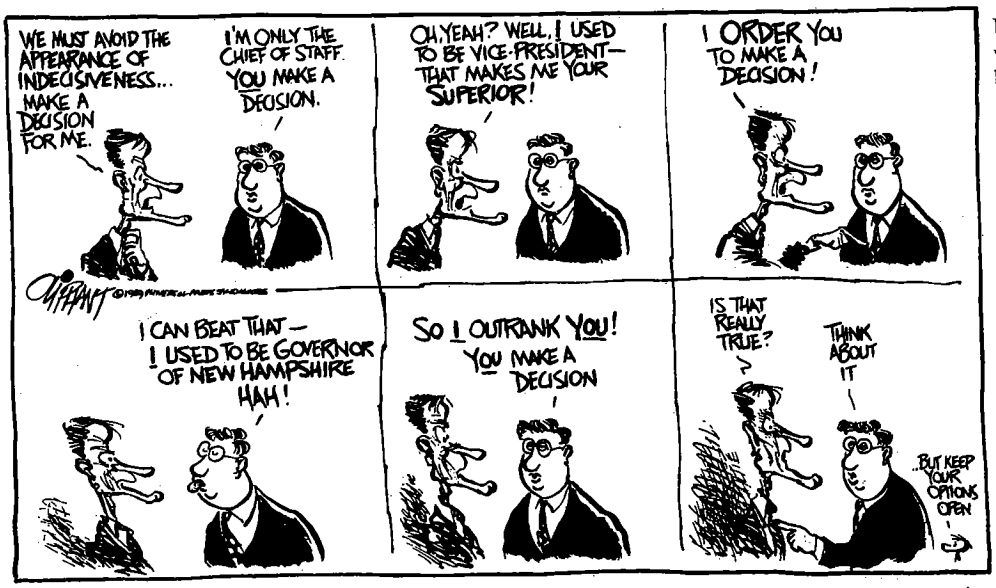
* *

As far as the public was concerned, the 1987 market crash was traumatic. Net new mutual fund sales for the first nine months of 1988 dropped 97%, from $78.6 billion to $2.1 billion! Nevertheless, interest in financial matters has never been greater, and competition for financial news is intense on TV and in the newspapers. The *Wall Street Journal* has been hit hard by competition (from *USA Today, Investor's Daily, New York Times* national edition), and ponder this: Advertising lineage has declined for the *WSJ* every year since 1985, circulation has fallen three of the last five years and operating profit margins last year were half what they were five years ago. Perhaps this is the best example of how hard the investment business has been hit: In the first two months of 1989 advertising lineage in the *WSJ* dropped 9.6% below '88 levels, while it dropped 26.4% for *Barron's.*

* *

George Bush played big in Tokyo and boffo in Beijing, but so far he hasn't thrilled them in Washington. If history means anything, US presidents who get anything done tend to start out with a bang. The word out of Washington is that the Bush administration is disorganized and that it has no agenda. Often, the nation's cartoonists are the first to zero in on the truth behind the headlines.

Here's Oliphant's insight, and it's not a happy one.


WE MUST AVOID THE APPEARANCE OF INDECISIVENESS... MAKE A DECISION FOR ME.
I'M ONLY THE CHIEF OF STAFF. YOU MAKE A DECISION.
OH, YEAH? WELL, I USED TO BE VICE-PRESIDENT— THAT MAKES ME YOUR SUPERIOR!
I ORDER YOU TO MAKE A DECISION!
I CAN BEAT THAT— I USED TO BE GOVERNOR OF NEW HAMPSHIRE HAH!
SO I OUTRANK YOU! YOU MAKE A DECISION
IS THAT REALLY TRUE?
THINK ABOUT IT
BUT KEEP YOUR OPTIONS OPEN

* *

Here's the story going around -- Stalin, Khrushchev, Brezhnev, and Gorbachev are stranded on a train in the middle of Siberia. (The train is symbolic of the Soviet economy, of course.) Stalin orders the train's crew shot, which obviously doesn't get the train moving. Khrushchev orders the crew rehabilitated, but the train still doesn't budge. Brezhnev orders the window shades pulled down and orders everyone to bounce up and down and pretend the train is moving. This works for a while, but young whippersnapper Gorbachev yanks up the shades and exposes the illusion. Then Gorby shouts, "Comrades, let me tell you the truth — the train is not moving. The only thing left to do is all get out and push. You'll all get your reward when we get to the station."

Russell comment: The passengers have been pushing for four years, and the train still hasn't arrived at the station. The pushers are getting tired. Worse, they're getting fed up. And Gorby is worried. He needs Western help to get the train going -- a lot of Western help.

* *

The Japanese have higher per capita income than Americans, but their standard of living is lower. Using a complicated formula, the OECD concluded that for every $100 worth of goods Americans purchased, Canadians purchased $80, W. Germans $69, French $66, and the Japanese only $65. But spendthrift Americans save around 5% of their income, Japanese 18.4%, W. Germans 11%, Italians 11%, while the Dutch, Austrians, New Zealanders and Spaniards all saved more than 10%. How long can this go on? As long as foreigners continue to lend to the US, I guess. Or as long as the dollar holds together.

* *

San Diegans have three great loves, their weather, their sports teams (when they're winning, only), and their zoo. The latter covers 100 acres in the city and the zoo's nearby Wild Animal Park covers 1,800 acres. The SD Zoological Society boasts the world's largest zoo membership, an amazing 142,000 households.

* *

Life in the US: According to a Stanford study the average divorced woman in California is awarded no alimony and less than $10,000 in property and child support (assuming it can be collected) averaging $200 a month for two children. Why? Calilfornia's no-fault laws, which don't take into account differences in earning power acquired during marriage. Think that's bad? A Rand study projected that two out of every three white children and 19 out of every 20 black children will spend part of their first 18 years in a single-parent home. Ninety percent of these families will be headed by women.

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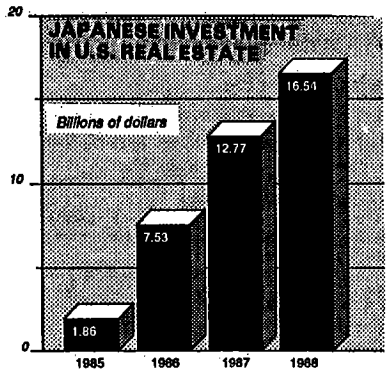
The Japanese now own 600 factories in the US employing more than 200,000 workers. The Japanese are continuing to accumulate US real estate. This chart, in fact, shows what we might politely term "accelerated buying."



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The race for the lead in the new field of superconductivity has been going on for a few years. But ponder this: Japan has outscored the US in patents by 300 to 34. The findings were based on a survey of 334 patent applications related to superconductivity which have been filed in the past few months. One has to wonder who will win the race.

* *

Since 1986 home prices in LA have increased 40%. This has resulted in many older people selling their homes for fat prices and moving to other, far cheaper parts of the country. A comparison, put out by the LA Times, shows what Californians may face as they leave the "Golden State." But wait a minute, what happens is that very often the Californians find that despite its smog and crowded freeways, they miss the weather, the excitement, and the friendliness of the Coast. But alas, they can't come home again. The price of a home is too high.

Median cost of an LA home $190,000, the same home in Portland Ore. only $64,800. Cost in LA to insure an '87 Subaru $2,550, same in Western Penn. $1,017. Time to drive across LA at midday 1 hour, same in Eugene Ore., 10 minutes. Cost of first-run movie ticket in LA is $6, same in Asheville, NC is $1.50. **But** average temperature in LA in January is 60.2 degrees, same in St. Paul, Minn. is 14.

* *

All Congressmen and Senators and their staff escape paying the onerous Social Security tax. How come? Well, they enjoy the juicy benefits of the Congressional Retirement Program so they don't need Social Security. Gad, I wish I could escape Social Security, but I just don't want to run for Congress.

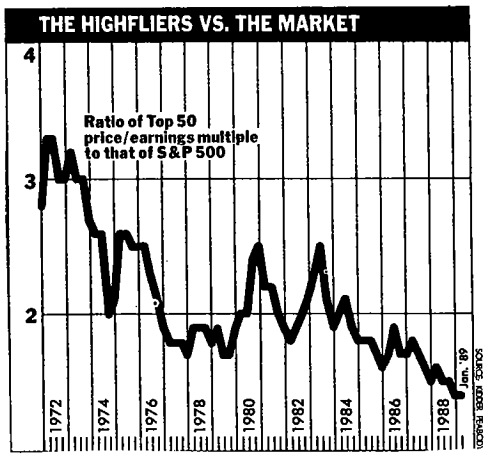
* *

Just 20 miles south of San Diego lies Mexico and its largest border city, Tijuana (TJ is thought to have a population of over 1 million). US and foreign corporations have learned the value of people who work hard for wages running from $1 to around $1.40 per hour. Plants are multiplying like mushrooms in TJ. There are now 450 so-called Maquiladora plants ("twin plants") in TJ employing more than 70,000 Mexican workers. Said my neighbor, Dan Pegg, head of San Diego's Economic Development Corp., "There have been charges of exploitation that are simply not true. I can tell you these 70,000 people are delighted to have jobs where none had been before."

* *

For 50 years Kidder, Peabody has kept track of the 50 "most expensive" or highest P/E stocks vs. the P/E for the rest of the market (i.e., the S&P 500). Right now, the market is paying very little for growth. Why? Probably the disillusionment caused by the crash plus the steadily rising level of interest rates. As rates rise, the discounted present value of future income declines. To put it

another way, as interest rates rise, low-yielding stocks (compared with high-yielding money instruments) are worth less and less. And the premium on growth stocks (which tend to provide minuscule yields) shrinks. (Chart is courtesy of Fortune magazine.)



According to *Automotive News* (yeah, I subscribe to this one too) inventories (in March) for imported cars rose to the highest level on record (an 87-day supply) while inventories for domestic cars were the second highest on record (78-day supply). As I've said before, competition in the auto industry is intense -- and it will only become more so in coming years.

* *

Comment: For 30 years I have gained new subscribers via a little ad in *Barron's* (appearing every other week) plus a small promotional direct mailing every other week. The names for the promotional mailing have always been obtained by trading lists with other investment services. Three weeks ago I sent letters to 35 advisory services asking whether they wanted to exchange names. For the first time in 30 years, nobody was willing to exchange. That tells me that the advisory business is slow, ghastly slow. But things are still busy here. So if any of you advisory publishers out there want to exchange lists, please let me know. Hey, is anyone still out there?

* *

HELP! We just got back from Vegas where I gave a speech, and we finished this Letter late on the weekend. I must be either tired or getting senile, because I forget to put the PTI chart on page 2. So, here it is on page 6.

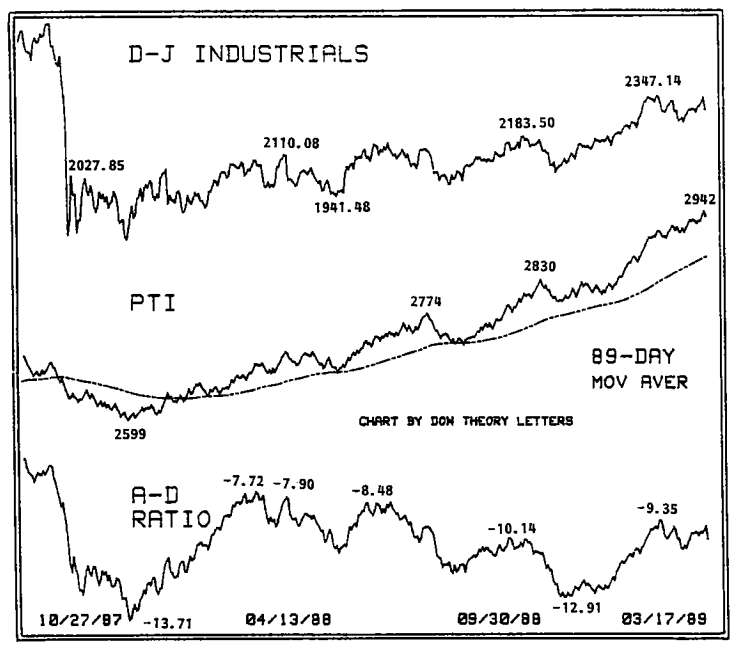
GOLD, OIL: People are dead bearish on gold. I mean it's awful. If we listen to the sentiment of the day, we'd think that gold was going to be used like cement -- maybe to patch up the streets of New York. Of course, this is just the kind of sentiment we'd expect to coincide with the formation of a major bottom. The latest talk is that "too much gold is being produced." And my answer has always been, "too much gold compared with what?"

Here are some significant figures put out by my friend, Doug Casey (he writes the "*Investing in Crisis* advisory). (1) The current stock of US Treasury gold, which is 261 million ounces, is worth $104 billion. The annual (true) US federal deficit is double that. (2) The US trade deficit this year is more than the value of our entire stock of gold. (3) The growth of the US money supply over the past 10 years has averaged 8.9%. If the current gold price (around $400) keeps pace with the growth in the money supply, we're talking about $1,000 gold in 10 years.

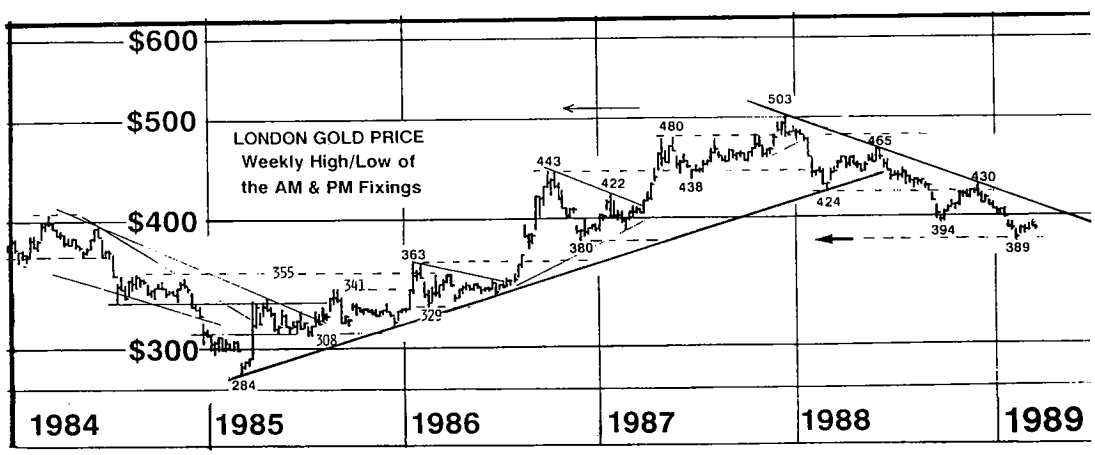
Meanwhile, back to reality. Gold has been fluctuating around the 389-395 area, and in my opinion it will not go much lower. As you can see on the chart, the metal has declined in three distinct swings. The third decline (as is characteristic in such cases) has turned even the gold-philes stone bearish.

The accompanying chart will give you a good perspective on the gold picture. It is obvious that to turn bullish, gold's first target would have to be 400. Beyond that, to turn decisively bullish, spot gold would have to climb into the 410-415 area (gold chart by Ian McAvity of *Deliberations*).

Oil is a different story. In the last Letter I included a chart of crude oil, a chart which I labeled as bullish. I further stated that a rise above 19 would put oil in position to attack the 20 resistance level. On March 17 (to the consternation of the transportation and utility industries), spot crude oil pushed over the $20 per barrel mark. So far, gold has literally ignored the bullish implications of the oil move. Nevertheless, I continue my program of buying the gold coins on a fixed-dollar per month basis.



LATE NOTES: On the big smash day of March 17, the D-J Transportation Average broke below its preceding low of 1042.37. But the Industrial Average did not confirm. A downside confirmation would entail the Dow closing below **2343.04.** If this happens, the secondary trend of the market will have turned bearish. In that case, then all three trends, minor, secondary, and primary, will be pointing down.



NEXT MAILING: April 5